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Momentum Investments Flexible Factor Portfolio Range

quarterly commentary to end June 2020

Assessing investment returns in an outcome-based investment context

The Momentum Investments Flexible Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period, while continuing to meet the portfolios' risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Investments Flexible Portfolio Range, it is important to start with looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period? We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
    - The returns from the investment strategies (or styles) used in the building block (if any)
    - The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.

Momentum Investments Flexible Factor Portfolio Range returns

The respective inflation objectives of the portfolios have been difficult to attain, given the low return from growth asset classes for the last five years. However, the portfolios managed to outperform their respective benchmarks over all periods.

Economic overview

Despite the world thawing from containment measures, which froze economic activity, positive economic surprises are not a global trend as yet and sharp increases in the number of daily new cases in some countries have halted an easing in restrictions, causing positive data surprises to roll over in some geographies. Although a sizeable fiscal response was triggered in developed and emerging markets (EMs), EMs had fewer resources to deploy. As such, a number of economies may operate below their potential beyond 2021 and the divergence between richer and poorer nations is likely to grow. Monetary policy measures are likely to steady financial markets and spur inflation on asset prices, but the effects on the real economy are likely to be diluted.

The mood in global financial markets sweetened in the past quarter in reaction to a rapid and sizeable intervention by policymakers to counter the COVID-19 pandemic, but history has warned about a quick rebound in earnings. The current optimistic consensus could be in for a negative surprise given the disconnect between share prices and expected company profits against a backdrop of prevailing uncertainties. The bond market and the rand have nevertheless maintained a risk-off profile during this period, given concerns on the outlook for the economy.

The COVID-19 pandemic has aggravated South Africa’s (SA) already severe socio-economic and political challenges. With the effectiveness of government’s stimulus package being stymied by administrative challenges, the economy is still likely to contract by a sizeable 8.1% this year. We only see the economy recovering by 2% in 2021. We anticipate a further drop in headline inflation to around the 2% mark on pressured household incomes causing a drop in demand. Inflation is likely to average 3% in 2020 before rising to 3.6% in 2021, in our view. We see room for up to 50 basis points worth of easing in the repo rate in light of dismal growth and well-contained inflation.

We remain cautious of SA equities, as they are likely to take their lead from global equities during a risk-off drawdown period, but we are positive beyond that. We favour SA nominal bonds relative to inflation-linked bonds in the near term, given the expected slowdown in inflation. The relative rating of SA listed property to nominal bonds is still at historical extremes, suggesting a lot of bad news is already being discounted. We remain cautious in the interim, but we see the return profile as asymmetric to the upside beyond that.

Portfolio management

We continue to manage the portfolios with caution, given that we expect market volatility during the second half of this year and, therefore, still have protection strategies on local equity. During the quarter, we reduced our overweight exposures to global bonds and property, and we also reduced our global equity allocations slightly. We remain cautious on local property, as the full ramifications of the lockdown are still unknown and, therefore, have a material underweight position. We were, however, slightly overweight local equity and favour nominal bonds over inflation-linked bonds within fixed-income.
We maintained a slight overweight position to local cash, which was purely for capital protection purposes.

In summary, we are comfortable that the portfolios are positioned in a manner that will benefit from improved risk sentiment. However, elements of capital protection are embedded in case of another risk-off event.

We continue to monitor these exposures and developments daily, with a view to provide the optimal risk-adjusted outcome to you as well as the assurance that your investments are being actively managed in a prudent and responsible manner.

Asset class returns

The returns for the asset class benchmarks for the second quarter of 2020 are reported in the first column of the table below. The next column highlights the returns for these asset classes for the previous year. These one-year returns are then converted into real returns by deducting inflation (2.7%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

Asset class	Q1 2020 returns	Nominal returns for the 12 months	Real returns for 12 months*	Expected real return (p.a.)
Local equity (Capped Swix)	21.6%	-10.8%	-13.5%	5.8%
Local bonds (Albi)	9.9%	2.9%	0.2%	3.3%
Local property (Sapy)	20.4%	-40.0%	-42.7%	7.0%
Local ILBs (Ilbi)	4.8%	-3.3%	-6.0%	2.8%
Local cash (Stefi)	1.5%	6.9%	4.2%	1.3%
Global equity (MSCI World)	13.7%	26.3%	23.6%	6.5%
Global bonds (WGBI)	-1.2%	29.1%	26.4%	-0.3%
Global property	6.4%	3.2%	0.5%	4.0%
US dollar/rand**	-2.7%	23.1%		
SA CPI	**-0.8%**	**2.7%**		

* A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor's perspective.

The table above highlights the challenges growth asset classes have experienced in the last year.

Building block return assessment

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

Local multiple balanced building block

The local multiple balanced building block consists of five underlying investment managers, namely Foord, Ninety One, Coronation, Prescient and Abax.

The building block returned 16.3% for the quarter, which was slightly behind the benchmark return of 17.3%. For the past year, the building block returned negative 3.9%, while the benchmark return was a negative 9.4%. For the quarter, Coronation returned 19.8% compared to a benchmark return of 17.3%, Prescient returned 16.9%, Ninety One 16.2% and Foord 15.3% and Abax returned 13.4%, respectively.

Coronation was supported by good share selection in an environment where the equity market was up 22% in the period. The portfolio remained skewed to rand-hedge shares. Early in the quarter, the investment manager added to positions in

Bidcorp (33.3%) and Anheuser-Busch InBev (9.1%), as both had sold off meaningfully. Buying was largely funded by a reduction in the size of Naspers and British American Tobacco holdings, both of which have performed well and remain considerable holdings for the portfolio. Local holdings in the portfolio remain concentrated in the higher-quality South African shares such as the food retailers (Shoprite, Spar), whose more resilient business models are best placed to weather the very tough South African macroeconomic environment. Having held up well during the first quarter's sell off, many of these underperformed during the second quarter, with the food and drug retail sector declining 2.0%. Resources rebounded strongly during the quarter (41.2%), as the demand outlook for commodities improved, due to a resurgent Chinese economy and the easing of restrictions elsewhere. The portfolio remained invested in Impala Platinum (53.2%) and Northam Platinum (67.4%). While the portfolio benefited from some direct exposure to gold, there were no positions in the producers, whose capital intensity and high-cost mines have resulted in lacklustre returns to shareholders over time.

Prescient's contributors to returns were local equities, preference shares and local property, while there were no asset-class detractors from returns.

Ninety One portfolio's holdings in resources, including the NewGold and NewPlat exchange-traded funds (ETF), Anglo American, AngloGold Ashanti, BHP Group, Gold Fields, Impala Platinum and Sibanye-Stillwater, added to absolute returns. Additionally, the holdings in British American Tobacco, MTN Group, Naspers, Prosus, Sanlam and Truworths International enhanced gains, while the allocation to local bonds also benefited the portfolio.

More negatively, the exposure to the 1nvest Rhodium ETF, Anheuser-Busch InBev, AVI, Capitec Bank, FirstRand, Pick n Pay Stores and Sasol detracted from absolute returns.

Foord's balanced portfolio benefited from good returns from core holdings Aspen, BHP Group and Naspers. The allocation to short-duration South African government bonds also contributed, as yields fell on improved emerging market risk appetite and sharply lower short-term interest rates. The low allocation to property detracted on an absolute and relative basis, as the sector recovered from its severe first-quarter correction, but remains down 37% for the year. The diversifying physical gold position also contributed, with the dollar price of the metal rising more significantly than the rand strengthened. The largest detractor was the holding in London listed property company Capital & Counties, which fell on continued pandemic disruption to retail economic activity in its core Covent Garden estate.

Abax's main contributors to return in the second quarter were Sasol (3.4%), Naspers (2.4%) and Absa (1.8%). The investment manager used the opportunity of the material sell off in the first quarter to increase its weighting in Sasol at attractive levels (R40 per share) and used the subsequent share price strength to take profits (R150 per share) as well as reduce exposure to the share. Naspers remained the largest position in the portfolio, with the investment manager's already positive view strengthening in the past year, due to the acceleration in gaming title releases, the relaxation of restrictions by the Chinese regulator and the firm's ability to respond to and develop new commercial (work from home) applications and industrial (cloud services) opportunities that presented themselves during the crisis. The bulk of this position is hedged, however, and should there be a correction in the share price, this hedge will provide protection. The investment manager has also increased the defensive nature of the portfolio, as markets were nearing their respective all-time highs, despite the biggest economic crisis since the Second World War.

On a look-through basis, the building block was underweight equity and property, as well as overweight cash, commodities and bonds.

Local property building block

The Sapy and the FTSE/JSE All Property Index (Alpi) returned 20.4% and 18.7% respectively for the quarter ended June 2020, with the historic yield of the Sapy ending the quarter at 8.55%.

Property returns for the six months were materially affected by the imposed 'hard' lockdown during March 2020, which had a devastating effect on the SA economy, including commercial real estate. The Sapy returned negative 36.57% for March alone. Downgrades to the country's sovereign credit rating by Moody's to junk status further explained some of the weakness in property returns for the year to date. Although collection of rentals billed by landlords proved to be more resilient than most expected, it was nonetheless significantly lower than normal levels. The greatest pressure was felt in the retail sector, particularly large shopping centres, as most of the tenants could not trade, while convenience centres fared better, as they primarily sell non-discretionary items, which are essential for day-to-day living. On average, rental collections from Reits retail portfolios came in around 50%. Reits operating in the office sector saw their rental collections efforts around the 60% to 70% range, while industrial sector operators achieved reasonably high collection rates.

The building block returned 19.0% for the quarter, which underperformed the benchmark.

The Momentum Listed Property Portfolio returned 16.8% compared to the index return of 20.43% during the quarter, resulting in the portfolio underperforming the benchmark by 3.6% for the quarter. Although the returns track recorded has been partly dented by this short-term returns, we remain positive that the portfolio will be resilient and continue to deliver strongly relative to the benchmark for the long term. During the quarter, the investment manager exited and reduced holdings in companies it deemed non-core holdings, including exposure in SA Corporate, Hyprop, EPP NV and Fortress, and reducing the position in Redefine.

The Catalyst portfolio returned 19.0% for the quarter as well. Being overweight Dipula-A and cash, which underperformed the benchmark, and underweight EPP, Redefine and Fortress B, which outperformed the benchmark, detracted from relative returns.

However, being overweight Resilient, which outperformed the benchmark, contributed to returns relative to the benchmark. Being underweight Sirius, Attacq, Emira and L2D, which underperformed the benchmark, also contributed to returns relative to benchmark

Meago returned 19.8% for the quarter, with the largest positive contributors to returns being overweight Ninety One Property Fund and Resillient and underweight Growthpoint and Hospitality B. The largest detractors to returns were being underweight Fortress B, Redefine and overweight Attacq, Emira and Equites Property.

Local flexible income building block

For the quarter, the flexible income building block yielded 2.9%, underperforming the benchmark by 3.4%. It also underperformed the benchmark (10.6%) for the year, as it returned 6.8%. For the three-year period, the building block did not manage to outperform the benchmark either (8.6% compared to the Albi (1 to 3 years) at 9.7%). The building block had a very high exposure of 75.7% in shorter-dated instruments, with a maturity less than one year (mainly floating-rate notes).

For the quarter, cash, as measured by the Stefi, delivered 1.5% and the Albi returned 9.9%. The bulk of the Albi return was generated by the 3-7-year sector (12.8%). However, the building block only had a 5.1% allocation to this sector.

For the year, cash delivered 6.9% and the Albi returned 2.9%. The allocation to ILBs (7.9%) and listed property (0.6%) detracted from the return, as these asset classes delivered negative 3.3% and negative 39.9% respectively. The building block o had a modified duration of 1.3 years, which was shorter than the Albi (1 to 3 years) at 2.4 years.

Local inflation-linked bond building block

There was a sharp rebound in returns from the fixed income asset class for the second quarter of 2020 after the severe risk-off period experienced in the first quarter. Listed property (Sapy) returned 20.43%, nominal bonds (Albi) followed, delivering 9.94%, with ILBs (Igov) and cash (Stefi) returning 4.75% and 1.46% respectively.

Inflation-linked bonds have been among the more volatile and illiquid asset classes, but the investment backdrop they face is distinctly challenging. So, the view is that this quarter's rally was simply a pull back after the significant sell-off in the first quarter, and they still face a lack of inflation in the local economy and elevated issuance by the government going forward.

The total return from inflation-linked bonds can be divided into two components – the monthly accrual and the mark-to-market of the capital value, due to the move in the real yields. The first component of return is the monthly accrual from the yield on the bonds and the inflation uplift. This component of the total return was a healthy 2.55% this quarter, with a 1.58% from inflation uplift and around 0.97% from yield accrual. The second component of the return is determined by the move in real yields of the bonds. Real yields moved lower during the quarter (22 bps), thereby generating capital gains to the tune of 2.2%.
These components combined thus explain the index (Igov) total return of 4.75%.

For the quarter, the building block yielded 4.8% against the benchmark Igov (4.8%). Credit spreads widened quite significantly (particularly on Landbank) and this has impaired returns for the quarter. The spread widening causes unrealised losses to come through in the building block total return but does offer attractive opportunities for investing new cash. However, investors should be very cautious deploying capital into ILB credit in the
current environment.

For the year, the building block yielded a return of negative 2.6%, compared to the benchmark of negative 3.3%. It had a modified duration of 8.60 years, compared with the Igov of 8.68 years. The investment manager was slightly underweight the 3-to-7-years and the 7-to-12 years sectors and overweight the 1-to-3-years and 12-plus-years sectors.

Local cash building block

For the quarter, the building block delivered a return of 2.0% compared to 1.7% for the Stefi benchmark.

There were four interest rate cuts by the Sarb, totalling 275 basis points since beginning of the year. The building block return was expected to be slightly lower for the next number of months, as floating-rate notes reset at lower benchmark rates.
The local primary market remained frozen (no public auctions held), due to market uncertainty around COVID-19. Credit spreads in the secondary market were generally widened since the pandemic, effectively making credit cheaper and thus returns on the building block were lower than was previously the case. This was largely as a result of investors selling credit and moving into more liquid and less risky asset classes.

For the year, the building block delivered a return of 8.4% against the Stefi benchmark of 7.8%. The building block consistently met its objective of capital preservation, by maintaining positive returns on a one-year rolling basis. Both investment managers

had a high exposure to floating-rate notes, which provided a fair degree of liquidity, while also providing excellent yields. The investment managers have started to adopt a more conservative approach to credit, i.e. focusing on more defensive and higher quality companies and investing in shorter-dated instruments.

Local absolute strategies building block

For the quarter, the absolute strategies building block returned 9.3%, 4% below its internal strategic benchmark, which returned 13.4%. Following the strong rebound in equity markets during the second quarter (the Capped Swix was up 22% for the period), the high equity investment managers, Prudential and Tantalum, added to the building block 's return, returning 16% and 15% respectively, while the more defensively positioned investment managers detracted. Sentio was up 10.4%, Prescient returned 5.8% and Absa returned 4.1%. For the year and for four years, which is the relevant measurement period, the building block outperformed the strategic benchmark, returning negative 2.2% and 3.8% relative to the benchmark returns of negative 3.5% and 3.4%, respectively. The inflation plus 4% target, however, was up 6.7% for the year and 8.3% per year for the last four years.

Prudential's portfolio significantly outperformed its objective for the second quarter. The largest asset class contributor was being overweight local equities. Local bonds, inflation-linked bonds (ILBs) and listed property all contributed towards returns. There were no asset classes that detracted from returns for the quarter. |Within equities, Naspers, Sasol, Anglo American and Implats were the strongest equity contributors to absolute returns for the quarter, with smaller contributions from British American Tobacco, MTN, Exxaro and Bidcorp. The larger detractors from absolute returns for the period were PPC, Pick 'n Pay and Ninety One plc. The portfolio continues to be overweight SA equities, SA nominal bonds, while neutral in ILBs, substantially underweight SA listed property and holds very little cash. Due to the large interest rate cuts from the Sarb, prospective returns from cash are now much lower than before the Coronavirus market crash.

Tantalum enjoyed a strong quarter with core contributors to equity returns including Sasol, Anglogold, Naspers, Omnia and Anglo American. Detractors were limited but included FirstRand, British American Tobacco, Molson Coors and Life Healthcare. The portfolio remains above neutral in terms of duration, with current yield levels providing a risk premium to compensate for increased fiscal risks. Due to a concern of possible issuance indigestion and potential further market volatility in the coming month, the investment manager was not significantly overweight bonds. The investment manager also retains an appropriate level of liquidity to allow it to buy into weakness in equities and bonds in the periods ahead.

Sentio's portfolio, while positioned for the expected recovery of the market, fell behind the benchmark, due to the extent of the strong recovery and aggressive style rotation. Positive contributors included positions in Naspers, Anglogold, Prosus, Anglo American, British American Tobacco and Sibanye. Top detractors include the protection strategies, as well as positions in FirstRand, Clicks, Ninety One, Netcare and Barloworld. Within bonds, the portfolio was overweight duration at the beginning of the quarter and the investment manager decided to take some profit following the strong nominal bond rally in May. The portfolio was overweight duration at the end of the quarter but to a lesser extent relative to the beginning of the quarter. The investment manager still saw upside in bonds and maintained its overweight nominal bonds and duration position. There is also continued optionality, which would protect the portfolio during a sell-off whilst participating in further bond rallies.

Prescient's portfolio's contributors to returns were the 5% exposure in listed property; 11% in preference shares and interest generated by income-bearing investments. Detractors were the longer-dated fixed interest exposure, such as 1% of the portfolio in ILBs, 12% in fixed-rate bonds. The portfolio maintained low equity exposure throughout the quarter and continues to do so.

Given the significant real yield available, 9% for 10-year bonds, 9% for preference shares and 7.5% for ILBs, these remain the investment manager's preferred asset classes over equity.

Absa's defensive positioning also lagged the strong market recovery with consolidation of monetary and fiscal policies providing a significant boost to risky investments. The investment manager remains on high alert, with the expectation that the remainder of the year will remain volatile and thus remains cautiously positioned in this period with 10% in SA equities, 3% in listed property, 11.9% in cash and the remainder in bonds, floating-rate notes and ILBs.

On a look-through basis, the building block had a neutral position to equities, was overweight bonds and inflation-linked bonds, while underweight property and cash.

Moderate hedge solution building block

The moderate hedge solution returned 13.7% for the quarter, bringing the one-year return to 2.51% after the deduction of all fees. This building block is diversified across strategies and within strategies. The directional equity exposure was reduced in favour of fixed income arbitrage and relative value equity, as relative value spreads in the equity and fixed income markets reached extreme levels during March. Most of the positions, which caused the drawdown in March, were not closed and reversed in the second quarter. The Absa market-neutral allocation returned 17.5% for the quarter. Notable fixed income arbitrage performers were Acumen, Terebinth and Matrix, returning 14.2%, 11.75% and 9.75% respectively.

Aggressive hedge solution building block

The aggressive solution returned 12.54% for the second quarter, bringing the one-year number to negative 5.47%. The 50%/50% Capped Swix/Short-term Fixed Interest Composite Index returned 10.62% for the quarter and negative 3.35% for the year. The active hedge fund strategies within the solution returned 20.3% for the quarter, with the best performer returning 56%, which was the Fairtree Assegai Fund.

Portable alpha hedge solution building block

The portable alpha building block returned 23.20% for the quarter, bringing the one-year number to negative 13.40% after the deduction of fees. This compared to the Capped Swix, which returned negative 20.12% for the quarter and negative 14.14% for the last year. Beta exposure across the building block was reduced in the middle of March in an effort to reduce market exposure across investor portfolios. As such, the building block was more conservatively positioned for the rally, which started in the middle of March 2020. The beta exposure level was at 100% at the end of the quarter.

Special opportunities building block

Despite the volatile markets and economic headwinds, returns for the second quarter were calculated at negative 1.02% and the last year produced an 8.57% return. Annualised returns after the deduction of fees for the 47 months of history was recorded at 9.10%. Given the dispersion of investment returns experienced across asset classes and regions, it is worth reiterating that the building block features were expressly designed to show limited correlation during short periods of market turmoil.

The investment thesis continues to play out and monthly returns remain relatively unaffected by volatility in global risk asset classes. One must remember when evaluating the building block that we will allocate to investment strategies that price infrequently and thus can have a dampening effect on returns and volatility in the short term.

Global active building block

The global active building block returned 10%, in line with the benchmark return for the quarter. For the same investment period, Ninety One and Allan Gray's returns of 11.2% and 10.4% respectively were ahead of Foord's 5.2% return.

Allan Gray Orbis' view is that inflation seems to be a risk worth protecting against. However, because it is not viewed as the headline risk feared by most investors, protection against it is relatively cheap. The investment manager held 11% of the Orbis SICAV Global Balanced Fund in gold-related investments. While gold provides a diversifying asset class that can also act as an effective inflation hedge, the investment manager supplemented the portfolio's gold-related position with another investment that shares those qualities, US Treasury Inflation-Protected Securities, or Tips. As Tips are as safe as normal government bonds in terms of repayment, but while normal government bonds are vulnerable to inflation, Tips pay out more if inflation goes up, protecting the holder against a loss in purchasing power. That protection is relatively cheap, as few investors are worried about higher inflation.

Ninety-One Global Macro Allocation's strategy exposure to higher-quality US equities was a notable contributor to returns for the period, as were Asian and emerging equity positions. Credit spreads across the developed and emerging world also narrowed sharply, and the portfolio's positions in US and European high yield, emerging market corporate, and sovereign, debt all added to returns. Exposure to gold and gold miners/royalty companies also appreciated, being pushed higher by ongoing central bank easing, while returns from currency were mixed.

Foord's global asset allocation to the portfolio's largest asset class, equities (19.4%), contributed to returns. The portfolio's gold ETF (9.8%) and a position in precious metals miner, Wheaton Precious Metals (60.0%), contributed to returns. US-based agricultural chemicals company and the portfolio's largest holding FMC Corp (22.3%) contributed most to returns, while Chinese holdings including the International and Commercial Bank of China (negative 6.1%) and PICC Property & Casualty Insurance (negative 8.1%) detracted. The portfolio's hedges, S&P 500 put options and short futures positions, in aggregate, detracted (negative 3.1%) from returns.

Global fixed income building block

Global aggregate bonds ended the quarter 3.3% higher in US dollar terms, after a flat first quarter, when credit spread widening offset treasury led gains. There was a marked improvement in sentiment to risky investments with little price deterioration from treasury bonds, which made for perfect conditions for the asset class. Spreads on the global index fell from 0.82% to 0.58% but remain wide of the 0.38%, where it started the year, leaving the prospect for some further upside from credit.

The best fixed income return for the month and quarter were recorded by the credit segment and by 'peripheral' country bonds. Overall, the 'peripheral' countries benefited from the EU's proposed recovery plan: the 10-year spreads on Spain and Portugal narrowed, ending the quarter at less than 0.9%, with Italy continuing to sit wider. Investment-grade corporate spreads tightened from 2.66% to 1.56% for the quarter.

The global bond building block returned negative 0.5% for the quarter, which was ahead of the benchmark return of negative 1.2%.

Global equity building block

The disconnect that occurs from time to time between returns from the stock market and economic reality could not have been more stark than in the second quarter of 2020. Induced by pandemic, the world entered its steepest and deepest recession for almost 100 years, yet stock markets moved relentlessly higher, with Wall Street leading the way with a return of 20% for the quarter, recovering much of the ground lost in the February and March sell off. Driving markets was the huge monetary stimulus, unleashed by the Federal Reserve on 23 March, with asset purchases on a scale never before seen, unlimited in size and duration, and including, for the first time, corporate bonds with sub-investment grade credit ratings. It was the critical moment in this crisis, and no coincidence that markets bottomed on that day. The Fed followed up in the second quarter with a commitment to continue asset purchases at the monthly rate of $120 billion and guiding that interest rates will be near zero through 2022. These actions averted a liquidity crisis, pushed interest rates on bonds to record lows, thereby supporting riskier and duration proxy investments, and ensured the smooth functioning of credit and money markets. Other major central banks have also taken drastic action, with extensions of stimulus programmes announced by the European Central Bank, Bank of Japan and Bank of England, and all effectively committing to near zero interest rates for years ahead.

Against this backdrop, the building block achieved a return of 13.5% compared to the MSCI AC World benchmark return of 13.2%.

Global property building block

The global property building block returned 6.3% for the quarter, in line with the benchmark return. The positive return was largely due to the gradual re-opening of many economies in Europe and the USA.

Conclusion

It’s only natural to be concerned when investment markets experience sharp drawdowns. The key during uncertain and volatile times like these is to remain invested and not to succumb to emotional reactions and to look beyond short-term fears.
The portfolio managers are continually assessing how best to manage your well-diversified portfolio during this period.